

Message Text

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ACTION AGRE-00

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PASS AGRICULTURE CEP, OGSM/KO STEPHENS

PASS AID

E.O. 11652: GDS

TAGS: EAID, EAGR, KS, US

SUBJECT: POSITION PAPER RE LONG-TERM AGREEMENTS

REF: A. SEOUL 10049; B. SEOUL 0522? C. FASTO 68

SUMMARY: THE ROKG OFFER OF A LONG TERM AGRICULTURAL SUPPLY AGREEMENT PROVIDES THE U.S. AN OPPORTUNITY TO HOLD ON TO ITS LION'S SHARE OF ROK AGRICULTURAL IMPORTS. WITHOUT SUCH AN AGREEMENT, THE ROKG WILL BE FREE TO TURN TO MANY OTHER POSSIBLE SOURCES FOR PRICE, CREDIT, OR UNRELATED POLITICAL AND ECONOMIC ADVANTAGE. SIGNIFICANT LOSS OF THE U.S. MARKET SHARE SEEMS CERTAIN. CONVERSELY, ROKG NEEDS TO BE ABLE TO POINT TO SOME ADVANTAGE TO BE GAINED FROM MAINTAINING U.S. DOMINANCE FROM BOTH DOMESTIC AND FOREIGN AUDIENCES. THE PRECISE CREDIT PACKAGE REQUIRED IS NOT EASILY ESTIMATED. WE BELIEVE IT SHOULD BE ABOUT EQUAL TO THE FY 78 PACKAGE, WITH ANY DROP IN PL 480 OFFSET BY MORE THAN PROPORTIONATE INCREASE IN CCC CREDITS. EPB IS PREPARED TO SEND A NEGOTIATOR TO WASHINGTON, BUT WE BELIEVE PRELIMINARY DISCUSSIONS HERE WITH EMBOFF MIGHT USEFULLY NARROW THE

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POSSIBLE BARGAINING RANGE. END SUMMARY.

1. IN PROPOSING A LONG-TERM AGREEMENT, THE ROKG HAS IN FACT OFFERED THE U.S. A VIRTUAL MONOPOLY ON THE MARKET FOR AGRICULTURAL IMPORTS. THEY HAVE SUGGESTED THAT THEY WISH GENERAL ASSURANCES THAT WE WOULD PROVIDE CREDIT TO FINANCE SOME PORTION OF THOSE IMPORTS, AS WELL AS AN ORDER

OF MAGNITUDE ESTIMATE OF THE AMOUNT OF CREDIT.

2. FAILING RECEIPT OF THIS CREDIT, ROKG HAS SEVERAL ALTERNATIVES WHICH WOULD PERMIT IT TO BUY ELSEWHERE THAN THE U.S. ITS OWN FOREIGN EXCHANGE RESERVES ARE HIGH SO IT COULD BUY FOR CASH, ITS CREDIT IS EXCELLENT (CURRENTLY IT CAN BORROW COMMERCIALY FOR MORE THAN 7 YEARS AT 1.5 PERCENT ABOVE LIBOR), AND IT HAS AN OUTSTANDING OFFER OF CREDIT FROM THE CANADIANS IN ORDER TO CRACK THE U.S. HOLD ON THE WHEAT MARKET. WE ARE RELIABLY INFORMED BY A RESPONSIBLE ROKG SOURCE THAT APPROXIMATELY TWO MONTHS AGO THE CANADIAN AMBASSADOR HAD MADE A STANDING OFFER TO MINISTER OF EPB TO PROVIDE WHEAT CREDITS FROM EIGHT TO TEN YEARS WITH INSTALLMENT PAYMENT BASIS AT 6 PERCENT INTEREST PER ANNUM (SEE REF. B PARA 3).

3. THUS WITHIN TWO YEARS AUSTRALIA AND/OR CANADA COULD DISPLACE AS MUCH AS ONE-THIRD OF THE CURRENT 100 PERCENT U.S. SHARE OF KOREA'S WHEAT IMPORT MARKET. THE THREAT FROM AUSTRALIAN WHEAT IS PARTICULARLY KEEN SINCE ITS CLASSES ARE MORE NEARLY COMPARABLE TO THE BULK OF KOREA'S REQUIREMENT THAN CANADIAN WHEAT. MANY OTHER POTENTIAL SUPPLIERS, WHETHER OR NOT THEY CAN OFFER CREDIT FOR COTTON, CORN AND SOYBEANS, STAND READY TO CUT INTO THE U.S. SHARE. THE CRUCIAL FACTOR, THEN, IS THAT IF THE U.S. CONTINUES TO OFFER CREDIT IN RELATION TO THE DOMINANT U.S. SHARE OF CONFIDENTIAL

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THE KOREA MARKET, KOREA HAS OFFERED TO SECURE THE LION'S SHARE OF ITS AGRICULTURAL REQUIREMENTS FROM THE U.S. IN THE FACE OF THE CURRENT BUILD-UP OF U.S. SURPLUSES OF AGRICULTURAL COMMODITIES, ESPECIALLY WHEAT AND CORN, WE HERE DO NOT TAKE LIGHTLY THE POSSIBILITY THAT KOREA WILL VERY SHORTLY BROADEN ITS SOURCE OF SUPPLY AND IN SO DOING STRIVE TO ACHIEVE POLITICAL OR ECONOMIC GOALS ELSEWHERE. CONVERSELY, THE ROKG NEEDS SOME SUBSTANTIAL JUSTIFICATION FOR KEEPING OUT SUCH OTHER EAGER SUPPLIERS AS CANADA, WHICH IMPORTS SUBSTANTIAL AMOUNTS OF KREAN GOODS.

4. IT HAS BEEN OUR ASSUMPTION THAT SOMETHING LIKE FY 78 LEVELS OF PL 480 AND CCC CREDIT WOULD BE REQUIRED. HOWEVER, THE CURRENT MOST SERIOUSLY AFFECTED (MSA) FORMULA SETS A VERY LOW LIMIT ON THE LEVEL OF TITLE I FOOD AIR TO KOREA. THUS, IF PL 480 IS ELIMINATED, A MORE THAN EQUIVALENT AMOUNT OF CCC CREDIT WILL BE NEEDED TO MAKE UP FOR THAT LOSS.

5. IN RESPONSE TO PARA 3 OF REF C, KOREA'S PRINCIPAL PRIORITY IS TO OBTAIN AS MUCH PL 480 AS POSSIBLE ASSUMING THAT OTHER CONSIDERATIONS (UMR AND USE OF PROCEEDS) DO

NOT BECOME OVERRIDING CONSIDERATIONS. AFTER THAT THEY WISH AS MUCH CCC CREDIT AS POSSIBLE AT THE LONGERST TERMS POSSIBLE. THE ACTUAL SUPPLY ASSURANCE CONSIDERATION IS OF SOME CONSEQUENCE, BUT THE PRINCIPAL EMPHASIS IN REF A MESSAGE WAS GENERATION OF WON FUNDS FOR SPECIFIED ROKG USE.

6. THE ROKG MIGHT ACCEPT LESS THAN THE FY 78 FIGURE, BUT UNTIL WE ACTUALLY MAKE AN OFFER, WE ARE UNABLE TO BE CERTAIN. EPB HAS INFORMALLY INDICATED IT WAS PREPARED TO SEND AN OFFICIAL TO WASHINGTON FOR DISCUSSIONS AT ANY TIME. IT MIGHT, HOWEVER, SAVE TIME IF THE EMBASSY WERE AUTHORIZED TO CARRY OUT A PRELIMINARY EXPLORATION, BASED ON WASHINGTON GUIDANCE.

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7. TABLES ATTACHED TO REF A IN OUR VIEW ARE FAIR ASSESSMENT OF PROBABLY DEMAND FOR AGRICULTURAL ITEMS LISTED IN REF A EXCEPT FOR CORN AND WHEAT WHICH ARE UNDERSTATED. CORN DEMAND MAY IN FACT RUN 200,000 TONS PER YEAR HIGHER. MAF CURRENTLY ESTIMATES CY 78 CORN AND/OR SORGHUM FOR FEED REQUIREMENT AT 1.5 MILLION METRIC TONS. IN ADDITION, ABOUT 300,000 METRIC TONS CORN FOR INDUSTRIAL USES WILL BE NEEDED. IN CASE OF WHEAT, BASED UPON COMMENTS OF COMPETENT AGRICULTURAL RESEARCHERS, THERE IS STRONG REASON TO DOUBT THAT KOREA WILL BE ABLE TO EXPAND ITS PRODUCTION. ACTUAL WHEAT IMPORT REQUIREMENTS SHOULD THUS BE CORRESPONDINGLY HIGHER.
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